

COLUMNS

## Digitizing stored value: Apps and wallets, wallets and apps

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By **Mark Wallis**

We have been discussing mobile conversion a challenge faced by everyone from merchants to payments companies to consumers.

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In the [first article in this series](#), we looked at the big picture of channels and applications, and changes underway that will ultimately lead to greater acceptance of the smartphone and other mobile devices as a trusted method of payment.

Two of these preparatory shifts in the journey toward digitizing stored value a term I am using to describe mobile acceptance particularly in the world of gift and other prepaid card solutions are conversion to NFC and upgrading bar code scanners.

In this article, we will continue our discussion, looking at the role of applications and two subsets, mobile wallets and branded merchant apps in creating the seamless customer experience for which everyone is waiting. That is when gift cards and other stored value cards will be NFC enabled.

When this is in place, merchants will be able to redeem them using NFC technology by placing the phone near the point of sale (POS) or with a mere swipe of the bar code scanner and the customer will be in, out, and done.

This experience is still only in the realm of possibility, but it is only a matter of time before it becomes reality.

Gift cards follow payment methods

Historically, gift cards and other stored value cards have followed the evolution and technology of the payment methods.

For example, the reason that gift cards are made from 30 mil plastic is that operationally in the United States, every store had a POS system in place to swipe a 30 mil plastic credit card.

We have not wanted to change that ecosystem. We have wanted to fit into it, because, especially on such a gigantic scale, it is much easier to go along for the ride than to reinvent the wheel.

So, in following what payments companies are thinking about right now, we are watching the wallet space, by which I mean the apps that are downloaded to smartphones to process payments, such as Apple Pay, Google Wallet, Samsung Pay, Android Pay and PayPal.

These are the leaders in processing payments via the mobile phone, and these are the methods we feel that consumers will adopt going forward. So it makes sense for gift and stored value cards to fit into the wallet ecosystem, too.

The other aspect of the applications ecosystem, as mentioned above, is the merchant-branded mobile app.

When a particular brand, such as Starbucks or Dunkin Donuts, has its own card or payment/loyalty system, this is sometimes referred to as a wallet too, but this is confusing and somewhat misleading.

Wallets such as ApplePay and AndroidPay are actually storage devices you can use them for payments, rewards, and so on.

But merchant-branded apps are more than just a wallet. They enable payment, promotions, couponing and rewards, but also store location, geofencing marketing capability all the digitizable features a brand would like to have in one place.

#### How wallets work

With wallets such as Apple Pay and Google Wallet, a customer stores her credit card information in a secure app, and is then able to use the smartphone instead of that card to make payments.

I am going to focus on Apple Pay here, because it is the wallet with greatest acceptance.

Apple Pay currently processes 70 percent of all NFC-enabled payments. Merchant acceptance has gone from 200,000 to almost a million in a year. That is one million out of about 13 million merchant locations in the U.S. So it is clearly the one to watch.

A primary impediment to mobile acceptance has been concern over security.

People still prefer to make purchases on their laptops rather than on their phones. Why? I do not have scientific research on this, but in my opinion, it is because of perceived security issues.

For one thing, with contactless payments generally, people have been worried about the fob, in close proximity to the card reader, creating an unintentional transaction, and whether this would be a similar concern for phones. These kinds of issues have stymied migration to mobile payment forms.

Actually, we believe that Apple Pay, for one, is safer than using a plastic credit card.

The technology requires the owner's fingerprint for anyone to be able to transact, and with the addition of this very personal marker, the authorization process becomes much more deliberate.

When you use your smartphone to pay, say, at Panera, the restaurant chain is transmitting a unique transaction code, versus the actual credit card number, providing a level of security similar to EMV.

You put your phone, with the screen off, near a POS terminal, and it comes up with whatever credit cards you have put in it, asks you which one you want to use, asks for your fingerprint, and it processes the transaction. That is hardly a transaction that could happen by accident.

As stored value and gift cards follow the payments industry, the payments industry follows Apple.

Once Apple decided to embrace NFC, all payment wallets have now also embraced it as a technology. NFC is contactless.

The iPhone 6 has NFC capability, but many merchants' POS readers do not yet. The fact that all earlier model iPhones did not have it was holding up NFC from taking off.

#### Merchant-branded apps

Though similar to the wallet, merchant branded apps are separate from your wallet-as-payment-mechanism, where you have put your credit card into your mobile phone and stored your credit card information.

With store branded apps, the wallet component has a completely separate functionality. You might have a basket that holds stored value connected to the brand, but not the credit card number that you have saved in the wallet.

Eventually I feel that these branded apps are going to be a great mechanism for gift card storage.

Starbucks is way ahead of the game in this regard. Its mobile app has a payment functionality that actually brands the wallet name with the Starbucks app.

Dunkin Donuts and other comers, including GameStop, are moving into this space now as well, with branded apps that allow gift cards to be provisioned, or digitized, into the wallet.

There is tremendous opportunity for merchants in including stored value in these self-use type programs.

It is only a matter of time before gift giving via mobile app gains in popularity, as more people go to their app to give gift cards to others.

But a larger piece of the puzzle for merchants is tying the loyalty programs to stored value, and presenting the stored value as dollars or branded currency to the consumer. Starbucks does this already to a certain degree with its Stars program.

Taking it to the next level, let us say you are a loyal customer at a fast casual dining chain. You can load a gift card to its app, register that gift card, tie your rewards program to that gift card, and then periodically, based on the number of points you get, it starts automatically loading dollar values to your app, so you can use it the next time you are there.

And as a consumer, you get the choice of how to spend your dollars, as opposed to getting a free coffee or a free bagel.

Currency, in this case, value that has added to a customer's mobile app, and that does not expire, is far more attractive than emailed offers and other notifications. And it is going to drive customers into the store a lot more effectively.

SO, TO SUM UP, there is an evolution that is underway, and has still further to go before mobile will be a more accepted form of payment, and before merchants will be able to offer that seamless, across-all-channels transaction experience for which everyone is waiting.

Getting the digital infrastructure in place, for example, merchants' POS capabilities and bar code scanners, is one piece of the puzzle.

But the consumer-facing mobile apps themselves are still very much a work in progress, too. We need to keep our eyes open, keep watching the leaders, and keep an open and inquiring mind and pretty soon, the mobile evolution will become a reality.

*Mark Willis is head of technology and innovation at [Stored Value Solutions](#), a Louisville, KY-based consultancy that works with retail brands worldwide to optimize mobile gift card programs. Reach him at [mwillis@storedvalue.com](mailto:mwillis@storedvalue.com).*